

12/7/74

LAND MAPER ON THE COUNTER OFFER

II. The Estimate

The counter offer differs slightly from the previous presentations by the Land Committee. The differences are in all three areas and add a value for Terminal de Madiñila which was not discussed by the Maritime representatives at any other time.

On the Saipan value claims the new figures for the Tanapag Harbor are increased from \$5,240,000 to \$5,300,000. This increase resulted in a change of the claimed commercial value from 20,000 p/a to 30,000 p/a for 10 acres and an increase of 3 acres for low density housing at \$12,000 p/a. These are insignificant changes. The end result lacks support in any detail and presumes a complete development by sale on the open market. The demand for the land does not consider any public use or public ownership and does not consider the adequacy of existing conditions relating to finance, labor development costs and economic justification.

A rather significant reduction of \$2,200,000 was made to the claim of values at Isley Field. The land use classification was changed from Industrial to Primary, Secondary and Tertiary with a top price of \$10,000 - \$7,500 and \$5,000 in place of \$12,000 p/a for the entire area.

Even with the reduction the price cannot be justified. The estimator completely neglects to exclude from the land use classification those areas adjacent to the runway which are precluded from development of any sort because of FAA airport operational criteria. The treatment of land use particularly in the Industrial category neglects to mention the total acreages on the entire Island that may be developed for industrial uses and also does not refer to the type of industry. There is so much better suited land

on the north side of the airfield and in nearby areas that the likelihood of industrial use of even 50 acres is highly speculative. The U. S. suggested unit price is slightly higher than the claim and the classification of 50 acres as industrial potential is very generous under the circumstances.

On Tinian the land classification and unit values were adjusted slightly in the Agricultural classification. Two new classifications of Construction land (2,900 acres) and Undeveloped land (1,100 acres) were both at an estimated 100 p/a were added. This addition adds 4,000 acres to the previous presentation which related estimated for 13,200 acres of land and increases the total from \$23,250,000 to \$25,165,000.

B. The Method

The counter offer is predicated upon a lump sum payment for a 50-year lease with an option to renew at a price to be negotiated in the future. The lump sum was constructed by taking the full fee value and setting a rental rate at 8.3% which is the same as paying interest. The rental rate is not related in any way to rentals of land nor is there any connection to the land use patterns. Once the rate of return or interest was established the receipt of future rental was discounted at the same rate. In effect the positive interest rate of 8.3% is matched by the negative discount rate of equal value so that the principal sum of \$34 million remains the same. Discounting is the reverse of interest.

The adjustment for Military Retention lands has no economic basis. At best it is a recognition by the Marianas Delegation that the U. S. has some rights in these areas. If the U. S. held a leasehold in the retention areas the proper method to value this right would be to measure the bonus value of the lease. The bonus value of the lease is the difference

between what is paid (contract rent) and the economic rent. Using the figures provided by the Marianas Delegation this Bonus value for 6 years equals \$3,156,307 instead of the \$80,000 indicated in the counter offer.

C. The Issues

1. Price

We have discussed the unit values and land classification to a large degree. While the U.S. can accept some of the classification and unit values we find nothing to support a suggestion that the demand for land for the suggested uses will be so complete and immediate that the prices can be considered as anything but speculation of the highest degree.

2. Lease v. Fee

While all estimates provided by the Marianas Delegation are stated as fee values and are predicated on a free market wherein lands are freely bought and sold the offer to the U.S. is something less. The U. S. Government is entitled to get what it pays for. The Congress of the United States would properly expect the U. S. representatives to bargain on this basis. The U. S. representatives cannot support a lease arrangement on any basis - need - price or precedent.

3. Retention Lands

A very large part of the value to be paid relates to the retention areas. The Congressional attitudes regarding this issue are very important. Just as we are expected to receive what we must pay for we cannot justify the abandonment of our rights in areas and purchase lesser rights in the land.